

**REPORT OF THE AUDIT OF THE
FORMER FLEMING COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER FLEMING COUNTY SHERIFF

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the former Fleming County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$22,122 from the prior year, resulting in excess fees of \$16,042 as of December 31, 2014. Receipts decreased by \$7,093 from the prior year and disbursements increased by \$15,029.

Lease Agreement:

Capital lease principal agreement totaled \$48,369 as of December 31, 2014. Future principal and interest payments of \$51,524 are needed to meet these obligations.

Report Comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of December 31, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$14,268

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENT AND RECOMMENDATION	17



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Scotty Royse, Former Fleming County Sheriff
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the former County Sheriff of Fleming County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Scotty Royse, Former Fleming County Sheriff
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2015 on our consideration of the former Fleming County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Fleming County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Scotty Royse, Former Fleming County Sheriff
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

August 31, 2015

FLEMING COUNTY
SCOTTY ROYSE, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

Federal Grants		\$	30,078
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			22,954
State Fees For Services:			
Finance and Administration Cabinet	\$	73,811	
Sheriff Security Service		37,227	
Cabinet For Health And Family Services		<u>543</u>	111,581
Circuit Court Clerk:			
Fines and Fees Collected			1,770
Fiscal Court			104,426
County Clerk - Delinquent Taxes			12,935
Commission On Taxes Collected			197,341
Fees Collected For Services:			
Auto Inspections		3,815	
Accident and Police Reports		320	
Serving Papers		21,970	
Carrying Concealed Deadly Weapon Permits		<u>5,745</u>	31,850
Other:			
Add-On Fees		20,839	
Telecommunication Commissions		<u>3,748</u>	24,587
Interest Earned			440
Borrowed Money:			
State Advancement		200,000	
Bank Note		<u>52,600</u>	<u>252,600</u>
Total Receipts			790,562

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
 SCOTTY ROYSE, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 203,603
Part-Time Salaries	21,369
Other Salaries	18,724
Overtime	78,355

Employee Benefits-

Workers Compensation and Unemployment	3,290
Employer's Share Social Security	3,200
Employer's Share Hazardous Duty Retirement	32,921
Employer Paid Health Insurance	5,723

Contracted Services-

Advertising	313
Vehicle Maintenance and Repairs	4,358
Communications	6,473
Transports	1,341

Materials and Supplies-

Office Materials and Supplies	3,957
Uniforms	1,917

Auto Expense-

Gasoline	23,694
----------	--------

Other Charges-

Computer Expense	1,059
Training	2,578
Fiscal Court Fees	3,220
Dues	445
Postage	633
Miscellaneous	262

Capital Outlay-

Office Equipment	2,412	
Vehicles	<u>16,032</u>	\$ 435,879

Debt Service:

State Advancement	200,000	
Notes	<u>52,600</u>	<u>252,600</u>

Total Disbursements \$ 688,479

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
SCOTTY ROYSE, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Net Receipts	\$ 102,083
Less: Statutory Maximum	<u>82,131</u>
Excess Fees	19,952
Less: Training Incentive Benefit	<u>3,910</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 16,042</u></u>

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent for the first six months and 34.31 percent for the last six months.

The Sheriff's contribution for calendar year 2012 was \$26,443, calendar year 2013 was \$23,405, and calendar year 2014 was \$32,921.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

FLEMING COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Fleming County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Fleming County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On December 31, 2014 the former Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$14,268

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 4. Drug Forfeiture Account

The Fleming County Sheriff's office maintains a drug forfeiture account. This account is funded by proceeds from the confiscation, surrender, or sale of real personal property involved in a drug related conviction. The beginning balance in this account was \$814. During 2014, the Sheriff's office received \$12,733 in forfeiture monies, restitution, and interest. During the year, \$12,805 was expended for allowable purposes, leaving a balance of \$742 in the drug forfeiture account as of December 31, 2014.

Note 5. Donation Account

The Fleming County Sheriff's office maintains a donation account to account for private and/or public donations to the Sheriff's office. The beginning balance in this account as of January 1, 2014 was \$241. There was no account activity during the year, resulting in an ending balance of \$241 as of December 31, 2014.

Note 6. Violence Against Women Act Grant

The Fleming County Sheriff's office was awarded a Violence Against Women Act Grant from the United States Department of Justice in the amount of \$38,211. During 2014, the Sheriff's office received \$30,078 as reimbursement for allowable payroll disbursements.

Note 7. Lease Agreement

On February 21, 2014, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on behalf of the Fleming County Sheriff's Office to purchase two vehicles for the Sheriff's office. The lease was for \$60,317. Principal and interest payments are due by the 20th of each month and are paid by the Sheriff's office. The principal outstanding was \$48,369 as of December 31, 2014.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Scotty Royse, Former Fleming County Sheriff
The Honorable Gary Kinder, Fleming County Sheriff
Members of the Fleming County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the former Fleming County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated August 31, 2015. The former County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Fleming County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Fleming County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Fleming County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Fleming County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 31, 2015

COMMENT AND RECOMMENDATION

FLEMING COUNTY
SCOTTY ROYSE, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties. The bookkeeper prepared the daily checkout sheets, prepared and made the daily bank deposits, reconciled the bank statements to the ledgers, as well as prepared, signed, and mailed checks for disbursements. Good internal controls dictate the same employee should not handle, record, and reconcile receipts and disbursements. The former Sheriff should have segregated duties so the same employee did not handle, record, or reconcile receipts and disbursements. If a segregation of duties was not feasible, compensating controls should have been implemented. The former Sheriff could have implemented the following steps to strengthen internal controls:

- The former Sheriff could have signed all checks or required dual signatures on checks.
- The former Sheriff could have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. This could have been documented by having the former Sheriff initial the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff could have reconciled monthly reports to source documents and receipts and disbursements ledgers.
- The former Sheriff could have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. This could be documented by having the reviewer initial the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: No response.

